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Interim feasibility study results confirm robust Marda project economics

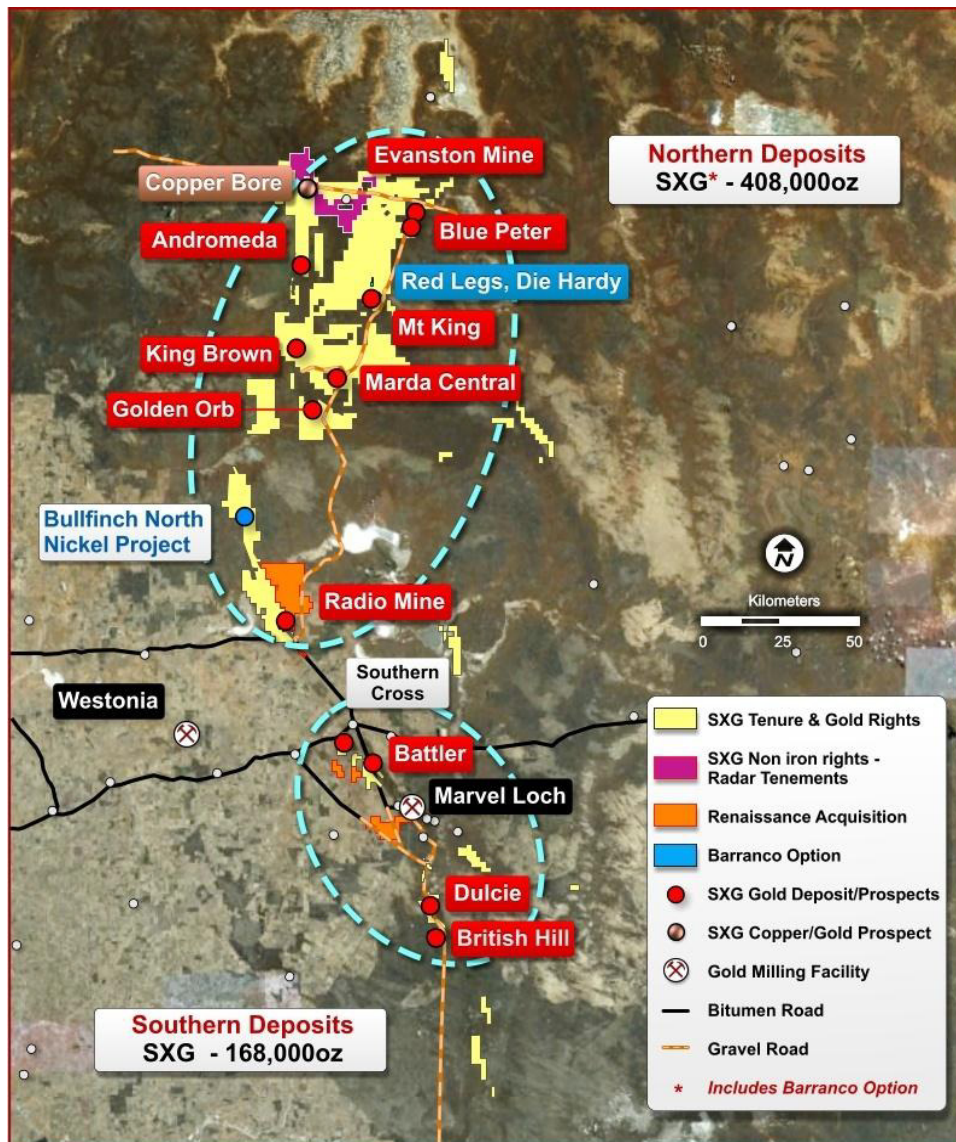
In early October we initiated coverage in the Daily Bulletin of emerging Western Australian gold hopeful, **Southern Cross Goldfields (ASX: SXG, Share Price: \$0.076, Market Cap: \$16m)**. What's interested me is the company's +600,000-ounce JORC gold inventory and solid prospects for being able to commercialise this resource. From a valuation perspective the company looks cheap and is well managed.



As a reminder, SXG has a specific focus on exploration and potentially development in an area known as the Marda region in Western Australia. Here SXG holds a big acreage position of ~4,000 sq km. For a number of reasons (mostly related to a fragmented tenement ownership history), Marda is a vastly underexplored region, particularly by Western Australian standards.

The nearest major gold belt is Southern Cross, just 150km to the south, which has a long and successful mining history and hosts abundant mining and production infrastructure. On the other hand Marda to the north has been virtually ignored from an exploration perspective.

All of this presents a significant opportunity for SSX. Its dominant acreage position includes important geological features known as the Evanston Shear and the Andromeda Trend, where significant gold mineralisation has been identified and where strong upside exists for further discoveries. The numerous existing Marda gold deposits are shown on the map below.



Surprisingly for a company with a modest market value of \$16m, it boasts a total JORC-compliant gold resource base of ~ 600,000 across a portfolio of predominantly oxide gold deposits. Resource estimate updates are currently in progress following strong drilling results during H1 2011 across all of the company's acreage.

Whilst SXG is currently being valued as an exploration company, it has detailed plans in place to become a gold producer. Its sensible strategy involves consolidation based upon the establishment of a centrally-located gold processing facility at Marda, where the bulk of its gold resource base is located.

As part of this approach SGX is in the process of completing a Feasibility Study to fully outline the gold production potential within its project portfolio. The scenario involves a modular 400,000tpa gold processing facility, with initial ore feed from four deposits comprising Python, Dugite, Dolly Pot and Goldstream at Marda Central. These are all clearly visible on the map above.

SXG today announced an interim update on the progress of the Feasibility Study, which has defined a robust initial base case gold operation that paves the way for completion of the Study in Q1 2012 and transition to gold production in 2013.

The key project parameters are listed in the following table:

Item	Description / Estimate
Whittle Optimisations Results	1.8 million tonnes @ 2.58 g/t Au
Mining method	Open Pit
Processing rate	400,000 tonnes per annum
Metallurgical recovery	95%
Average annual gold production	31,500 ounces per annum
C1 cash operating costs	A\$790 per ounce recovered
Pre-Production Capital Cost	A\$55 million
Pre-tax operating cashflow	A\$130 million
Annual sustaining mine capital	A\$2 million
Construction commencement	H2 calendar year 2012
First production	H1 calendar year 2013

SXG will continue to advance opportunities to enhance the base case, including conducting in-fill and extensional drilling to define additional Measured and Indicated resources in the Marda region.

The company has the flexibility to schedule high-grade production from existing deposits to maximise gold production and cash flow in the early years of the proposed operation. The potential definition of additional Measured and Indicated Resources within the company's regional deposits and prospects would provide the opportunity to upgrade the throughput rate of the proposed modular process plant.

Production could be complemented by higher-grade material from satellite deposits such as King Brown, Golden Orb and Battler, from the southern portion of the company's Marda project area. Importantly, all of the company's Marda gold deposits are located on granted Mining Leases.

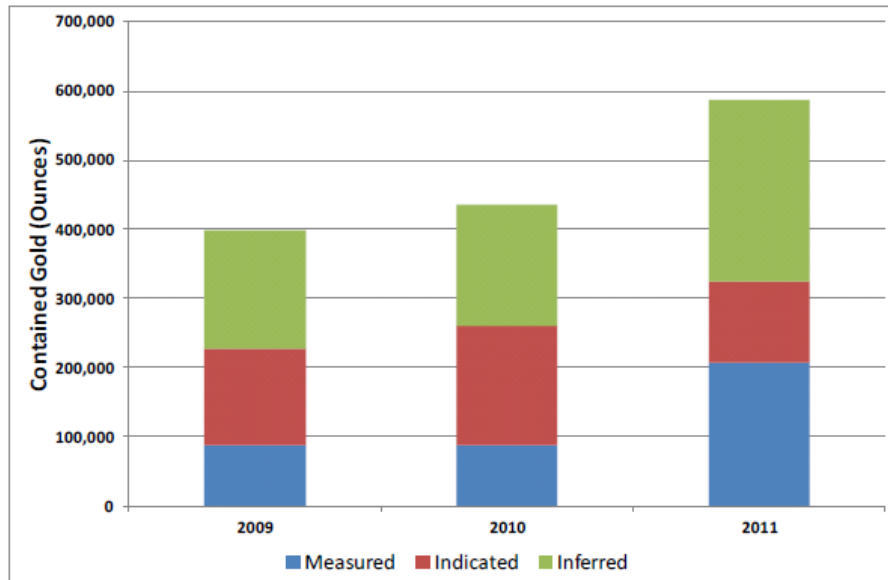
The interim results reinforce the company's target to be producing gold by H1 2013 at ~30,000 oz annually at a cash operating cost of ~A\$800/oz for at least an initial 3-year mine-life.

The establishment of a central gold processing facility at Marda would also open up the company's extensive 4,000 sq km Marda exploration portfolio to focused exploration work that could provide a boost to its base-case production scenario.

And there's been positive news too on the resource front. SXG has advised that in-fill drilling has resulted in a more-than-doubling of the JORC-compliant Measured Resource to 203,000oz. The overall resource base has increased from 7.2 million tonnes @ 1.9 g/t Au for 436,000 ounces of gold contained during 2010 to 8.8 million tonnes @ 2.07 g/t Au for 589,000 ounces of contained gold (including the Barranco option comprising 140,000 ounces of JORC-Inferred resource at the Red Legs and Die Hardy deposits.

Resource Estimate (Year)	Tonnes (million)	Grade (g/t Au)	Contained Gold (Ounces)
2011	8.8	2.07	589,000
2010	7.1	1.91	436,000

Importantly from a Feasibility Study and resource confidence perspective, the JORC Measured portion of the Resource Estimate has more than doubled from 1.4 million tonnes @ 2.0 g/t Au for 87,000 ounces of contained gold, to 2.8 million tonnes @ 2.26 g/t Au for 203,000 ounces of gold. The resource growth over recent years is shown in the following graphic.



There is an obvious comparison to be made with fellow ASX-listed WA gold junior Focus Minerals (ASX: FML), which has applied an almost identical growth strategy at its Tindals gold project area, near Coolgardie. Focus has utilised a centralised gold treatment plant to exploit nearby small open-pit and underground deposits. Focus Minerals boasts a market cap of more than \$240m and is on track to be a 100,000 oz gold producer by the end of 2011.

SGX has an achievable gold production strategy, with exploration upside supported by its vast acreage position. The important part for potential investors is that the company is still being valued as an explorer, with a market cap of just \$16m, although its development prospects must be considered high. Certainly one to watch.

As I highlighted in yesterday's Daily Bulletin, gold has demonstrated a solid and sustained recovery over the past couple of months. This provides reassurance for all gold investors. I said in the aftermath of gold's recent plunge that the metal would likely form a base around US\$1,600/oz, which is the metal's long-term trend-line.

Gold is now consolidating between US\$1,700 and US\$1,750/oz, with support now at US\$1,680/oz and resistance at \$1,750/oz, which is currently being challenged. Given the ongoing scale of European and global credit uncertainty, the next step for gold appears to be a move comfortably back above US\$1,800/oz over the next few weeks and to fresh record highs during 2012.

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